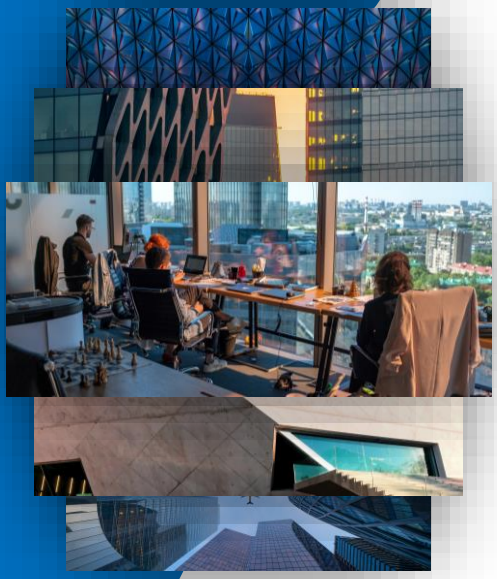
Manual tax calculations

Agenda

- Overview of Income Tax
- Example 1
- Example 2
- Questions
- Summary
- Take away exercise



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Income Tax

- **What is 'Pay as You Earn' (PAYE)?**
- **Personal Allowance**
  - Earnings before tax
  - Employee tax code
- **Marginal tax rates**
  - 'Bands' of earnings
  - Scottish taxpayers
- **Using tables**
  - Tax Table A
  - Tables B-D

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Pay As You Earn and income tax

Calculate the tax due using the tax tables

Example 1

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- You have earnings in month 1 of £2,000
- You are in the Payroll Giving scheme (£30 per month)
- Your tax code is 1257L

Pay As You Earn and income tax

Working out the pay adjustment (1 of 2)

Example 1

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Tables A - Pay Adjustment Tables — Apr 6 to May 5 **Month 1**

Code	Total pay adjustment to date	Code	Total pay adjustment to date	Code	Total pay adjustment to date	Code	Total pay adjustment to date	Code	Total pay adjustment to date	Code	Total pay adjustment to date
	£		£		£		£		£		£
0	NIL										
1	1.59	61	51.59	121	101.59	181	151.59	241	201.59	301	251.59
2	2.42	62	52.42	122	102.42	182	152.42	242	202.42	302	252.42
3	3.25	63	53.25	123	103.25	183	153.25	243	203.25	303	253.25
4	4.09	64	54.09	124	104.09	184	154.09	244	204.09	304	254.09
5	4.92	65	54.92	125	104.92	185	154.92	245	204.92	305	254.92
6	5.75	66	55.75	126	105.75	186	155.75	246	205.75	306	255.75
7	6.59	67	56.59	127	106.59	187	156.59	247	206.59	307	256.59
8	7.42	68	57.42	128	107.42	188	157.42	248	207.42	308	257.42
9	8.25	69	58.25	129	108.25	189	158.25	249	208.25	309	258.25
10	9.09	70	59.09	130	109.09	190	159.09	250	209.09	310	259.09

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One amount of pay adjustment, but only one amount, should be taken from the main look-up table.

If the code divides exactly into units of 500 with no balance over (for example, 1500, 2000, 2500) divide the code into units of 500 and note the number of units (for example, 1500 is 3 units of 500, 2000 is 4 units of 500.

Calculate the free pay like this

1 Look up the amount for 1 unit of 500 from the main look-up table.

2 Multiply the figure given in the box marked '*' at the bottom of the page by the number of remaining units of 500.

Add these two amounts together.

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b. Add this pay adjustment figure to the figure given in the box alongside to obtain the figure of total pay adjustment to date * **416.67**

Pay As You Earn and income tax

Working out the pay adjustment (2 of 2)

Example 1

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131	109.92	191	159.92	251	209.92	311	259.92
132	110.75	192	160.75	252	210.75	312	260.75
133	111.59	193	161.59	253	211.59	313	261.59
134	112.42	194	162.42	254	212.42	314	262.42
135	113.25	195	163.25	255	213.25	315	263.25
136	114.09	196	164.09	256	214.09	316	264.09
137	114.92	197	164.92	257	214.92	317	264.92
138	115.75	198	165.75	258	215.75	318	265.75
139	116.59	199	166.59	259	216.59	319	266.59
140	117.42	200	167.42	260	217.42	320	267.42
141	118.25	201	168.25	261	218.25	321	268.25
142	119.09	202	169.09	262	219.09	322	269.09
143	119.92	203	169.92	263	219.92	323	269.92
144	120.75	204	170.75	264	220.75	324	270.75
145	121.59	205	171.59	265	221.59	325	271.59

April 6 to May 5 — Month 1

500 = 416.67
500 = 416.67
257 = 214.92

Pay adjustment = £1,048.26

Pay As You Earn and income tax

Taxable pay calculation

Answer 1

GROSS PAY	2,000.00
Less Payroll Giving	30.00
GROSS TAXABLE PAY	1,970.00
Plus PREVIOUS PAY TO DATE	-
TAXABLE PAY (TO DATE)	1,970.00
+ / - PAY ADJUSTMENT	(1,048.26)
TAXABLE PAY (TO DATE)	**921.74**

Pay As You Earn and income tax

Check monthly basic rate limit is not exceeded

Answer 1

HM Revenue & Customs

Tables B to D (April 2021)

Month	Column 1	Month	Column 1	Month	Column 1
1	3142	5	15709	9	28275
2	6284	6	18850	10	31417
3	9425	7	21992	11	34559
4	12567	8	25134	12	37700

Taxable pay = £921.00, so basic rate only (Table B)

Pay As You Earn and income tax

Taxable pay calculation

Answer 1

Total taxable pay to date	Total tax due to date	Total taxable pay to date	Total tax due to date	Total taxable pay to date	Total tax due to date
1	0.20	51	10.20	100	20.00
2	0.40	52	10.40	200	40.00
3	0.60	53	10.60	300	60.00
4	0.80	54	10.80	400	80.00
5	1.00	55	11.00	500	100.00
6	1.20	56	11.20	600	120.00
7	1.40	57	11.40	700	140.00
8	1.60	58	11.60	800	160.00
9	1.80	59	11.80	900	180.00
10	2.00	60	12.00	1000	200.00
11	2.20	61	12.20	1100	220.00
12	2.40	62	12.40	1200	240.00
13	2.60	63	12.60	1300	260.00
14	2.80	64	12.80	1400	280.00
15	3.00	65	13.00	1500	300.00
16	3.20	66	13.20	1600	320.00
17	3.40	67	13.40	1700	340.00
18	3.60	68	13.60	1800	360.00
19	3.80	69	13.80	1900	380.00
20	4.00	70	14.00	2000	400.00
21	4.20	71	14.20	2100	420.00
22	4.40	72	14.40	2200	440.00
23	4.60	73	14.60	2300	460.00
24	4.80	74	14.80	2400	480.00
25	5.00	75	15.00	2500	500.00

900 = £180.00
21 = £ 4.20

Tax to pay = £184.20

Pay As You Earn and income tax

Month 1 earnings £2,000
Tax code 1257L

Answer 1

GROSS PAY	2,000.00
Less Payroll Giving	30.00
GROSS TAXABLE PAY	1,970.00
Plus PREVIOUS PAY TO DATE	-
TAXABLE PAY (TO DAE)	1,970.00
+ / - PAY ADJUSTMENT	(1,048.26)
TAXABLE PAY (TO DATE)	**921.74**

TAX DUE (Table B)	184.20
TAX DUE TO DATE	184.20
Less PREVIOUS TAX PAID	-
TAX DUE (THIS PERIOD)	**£184.20**

Pay As You Earn and income tax

Calculate the tax due using the tax tables

Example 2

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- Month 2 earnings of £2,000 plus a bonus of £300
- Payroll Giving scheme (£30 per month)
- Tax code remains 1257L

Pay As You Earn and income tax

Working out the pay adjustment

(1 of 2)

Example 2

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Code more than 500

1 Where the code is in the range **501** to **1000** inclusive:

a. Subtract **500** from the code and use the balance of the code to obtain a pay adjustment figure from the table above.

b. Add this pay adjustment figure to the figure given in the box alongside to obtain the figure of total pay adjustment to date * **833.34**

2 Where the code **exceeds 1000** follow the instructions on **page 3**.

196	328.18	**256**	428.18
197	329.84	**257**	429.84
198	331.50	**258**	431.50
199	333.18	**259**	433.18
200	334.84	**260**	434.84

May 6 to June 5 | Month 2

500 = 833.34
500 = 833.34
257 = 429.84

Pay adjustment = £2,096.52

Pay As You Earn and income tax

Taxable pay calculation

Answer 2

GROSS PAY	2,300.00
Less Payroll Giving	30.00
GROSS TAXABLE PAY	2,270.00
Plus PREVIOUS PAY TO DATE	1,970.00
TAXABLE PAY (TO DATE)	4,240.00
+ / - PAY ADJUSTMENT	(2,096.52)
TAXABLE PAY (TO DATE)	**2,143.48**

Pay As You Earn and income tax

Check monthly basic rate limit is not exceeded

Answer 2

https://cipp.org.uk

Month	Column 1	Month	Column 1	Month	Column 1
1	3142	5	15709	9	28275
2	6284	6	18850	10	31417
3	9425	7	21992	11	34559
4	12567	8	25134	12	37700

Pay As You Earn and income tax

Taxable pay calculation

Answer 2

21	4.20	71	14.20	2100	420.00
22	4.40	72	14.40	2200	440.00
23	4.60	73	14.60	2300	460.00
24	4.80	74	14.80	2400	480.00
25	5.00	75	15.00	2500	500.00
26	5.20	76	15.20	2600	520.00
27	5.40	77	15.40	2700	540.00
28	5.60	78	15.60	2800	560.00
29	5.80	79	15.80	2900	580.00
30	6.00	80	16.00	3000	600.00
31	6.20	81	16.20	3100	620.00
32	6.40	82	16.40	3200	640.00
33	6.60	83	16.60	3300	660.00
34	6.80	84	16.80	3400	680.00
35	7.00	85	17.00	3500	700.00
36	7.20	86	17.20	3600	720.00
37	7.40	87	17.40	3700	740.00
38	7.60	88	17.60	3800	760.00
39	7.80	89	17.80	3900	780.00
40	8.00	90	18.00	4000	800.00
41	8.20	91	18.20	4100	820.00
42	8.40	92	18.40	4200	840.00
43	8.60	93	18.60	4300	860.00
44	8.80	94	18.80	4400	880.00
45	9.00	95	19.00	4500	900.00

2,100 = £420.00
43 = £ 8.60

Tax due to date = £428.60
Tax paid to date = £184.20
Tax deduction = £244.40

Pay As You Earn and income tax

Month 2 earnings £2,300
Tax code 1257L

Answer 2

GROSS PAY	2,300.00		
Less Payroll Giving	30.00	**TAX DUE** (Table B)	428.60
GROSS TAXABLE PAY	2,270.00	**TAX DUE** (TO DATE)	428.60
Plus PREVIOUS PAY TO DATE	1,970.00	*Less* PREVIOUS TAX PAID	(184.20)
TAXABLE PAY (TO DATE)	4,240.00	**TAX DUE** (THIS PERIOD)	**£244.40**
+ / - PAY ADJUSTMENT	(2,096.52)		
TAXABLE PAY (TO DATE)	**2,143.48**		

Questions?

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Manual tax calculation

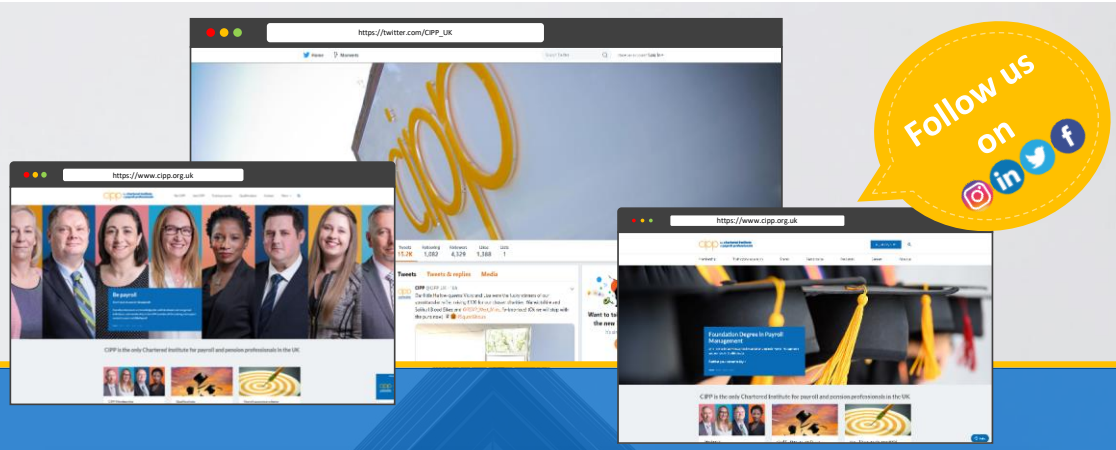
steps to take

- ✓ Identify taxable earnings to date
- ✓ Use tax table A to adjust pay
- ✓ Identify the marginal tax rate
- ✓ Use tax tables B-D to calculate tax due
- ✓ Deduct any tax paid to date

Take away exercise

Task
A3

- Month 3 earnings of £2,000
- Payroll Giving scheme (£30 per month)
- Tax code remains 1257L



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